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Net-present-value return on marketing investment model for Arrowhead Credit Union

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NET-PRESENT-VALUE RETURN ON MARKETING INVESTMENT MODEL FOR ARROWHEAD CREDIT UNION

A Project

Presented to the

Faculty of

California State University,

San Bernardino

In Partial Fulfillment

of the Requirements for the Degree

Master of Business Administration

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ABSTRACT

This paper introduces a Net-Present-Value Return on Marketing Investment Model. This model's design is based on research gathered from periodicals, textbooks, credit union journals, interviews with colleagues and my own experience from working in the Credit Union industry for fourteen years. In addition comparisons were made and building blocks were set with previously used simplistic models that were antecedents to the development of the Net-Present-Value Return on Marketing Investment Model.

This paper illustrates how to quantify the benefits of money spent by Arrowhead Credit Union on marketing loan promotions. In the past, Arrowhead Credit Union's (ACU's) Marketing Department has spent money on promotions with little analytical preparation, and with mostly gut feelings. Nevertheless, Arrowhead Credit Union has been very successful with return on marketing dollars spent. Due to ACU's success, the tactics used have been rarely questioned. The loan promotions are currently evaluated by the number of loans made and the total loan dollars lent out to ACU members. While this is helpful information, to be truly proactive rather than reactive, executives at ACU have made a goal to join efforts of the Marketing, Accounting, and Management teams to analyze Marketing

Investments in loan promotions before and after the promotion has taken place.

This paper identifies the key relationship a Marketing Department has in a financial organization, along with the vital need to quantify results. From this, a new model called the Net-Present-Value Return on Marketing Investment was created.

The model will illustrate the bottom line of a loan promotion with the Net-Present-Value Return for every marketing dollar spent on loan promotions. The format is quick, and easy to use with detailed documentation that justifies budget expenditures and provides insight into whether or not to repeat a tactical approach of a marketing promotion.

In addition to the Net-Present-Value Return on Marketing Investment model a post-evaluation Autopsy report is presented. It works in conjunction with the model and includes feedback from key individuals and departments within the organization and identifies intangible effects of a promotion.

The Net-Present-Value Return on Marketing Investment model bridges the gap between the Accounting and Marketing Department. The model will maximize efforts by identifying the most profitable uses of marketing dollars.

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CHAPTER ONE

INTRODUCTION

The purpose of this project is to design a working, user-friendly, financial model that allows Arrowhead Credit Union (ACU) employees the ability to analyze the benefits of financial investments for marketing promotions. In addition, the model allows the user to make assumptions for potential loan promotions. The intended users are primarily ACU's marketing and lending managers as well as senior management.

Financial analysis can be daunting for many people. Employees at ACU have a variety of backgrounds from degrees in education, liberal studies, marketing, general business and finance; this is supplemented by extensive on-the-job training and experience. I have been in meetings where financials have been presented, and many times questions were not even asked. Is this because nobody in the room has any questions or because they do not completely understand the financial material being presented? It can be quite intimidating to not understand. The goal of this model is to design a practical tool that any manager can use and comprehend after reading the step-by-step instructions. For every person who feels

confident to raise his/her hand and ask a question, there may be five others who are not so confident, but who still have question.

Currently, when ACU runs a promotion, we spend the dollars to develop and implement the campaign, but we are never sure of its success or the lack thereof. Actually quantifying whether the promotion was a success has been difficult and the methods of return on marketing investment analysis have been questionable. There are many factors that come into play. Doing a return on marketing investment analysis includes not only the direct costs that are incurred initially, but it also includes indirect costs such as overhead, staff salaries, opportunity costs and many other variables. The Net-Present-Value Return on Marketing Investment model that is presented in this document incorporates all short and long-term financial factors into the effectiveness analysis.

To be truly successful, an organization must use a process that will enhance the probability of making good investments and in which all investment opportunities are considered appropriately and consistently. In addition, a successful organization must put processes into place that minimize the political aspect of informal, ad-hoc decision-making. Good, sound, consistent practices on

decision making raise the likeliness a project will succeed.

Methodology

Both secondary and primary data were utilized in the process of creating the Net-Present-Value Return on Investment model. First of all, the existing financial literature was reviewed to identify current assessment practices of financial institutions. Primary qualitative data was then acquired through personal interviews with credit union employees who have been involved in such assessment processes. Finally, I included my own expertise from working in the credit union industry for the last fourteen years.

Constraints

The proposed model of the Net-Present-Value Return on Marketing Investment faces the challenge of keeping the model flexible enough that it can be changed as variables change. For a financial institution to provide a wide array of options, the products and services offered are constantly changing. For instance, years ago we could offer one rate for "A" credit people. Now we must offer tiered rates based on credit worthiness to offset the risk ACU may incur. Another example would be credit cards that

offer a promotional rate for the first six or twelve months after which a different rate goes into effect. Both examples add complexities to the model.

Another challenge is presenting the model in an easy-to-understand format. If the model does not get utilized, then, it is a failure. Proper training and education enables the staff to understand and use the results of the measurement. This type of measurement can become a means to manage and strategize, rather than just a report card. It was my challenge to design the model to be informative, quick and fun. That's right, fun. I would like users to be thrilled with the answers they can derive with relative ease.

One may question whether all projects are quantifiable and whether one can compute a Return on Investment on every project. Everybody has theories on how to compute Return on Investment, but actually getting the Return on Investment and doing it well can be debated. The idea of presenting all of the facts in a neat package is alluring. The fact is that the majority of projects can be quantified. Projects that hold the greatest challenges are the ones that set out to change individual's emotions, enhance the image of ACU, or simply raise awareness. Careful benchmarks must be set and surveys can be done,

but again it can be difficult to set hard numbers sometimes.

Product pricing is yet another issue that must be scrutinized in the context of such a project. As a financial institution, how much should we charge for savings, checking, booking a loan, processing regular payments, and how do we quantify employee wages and overhead costs into the product price? The product pricing is a sticky issue and each financial organization must have key people who come to agreement as to what should and should not be included. To get an accurate picture of the costs of each product, ACU has purchased a Pricing Performance Survey (PPS) system. Employees who perform different tasks to deliver a product or service to ACU members were asked fill out surveys indicating how much time is spent doing each task. The employees' salaries, overhead costs and time consumption are factored together to give an actual cost for each product. This allows us to have a clearer picture of what products actually cost ACU to offer to members. The challenge is that the PPS system has only been in place a year and a half. According to ACU's Chief Financial Officer (CFO) Ray Mesler, the costs that have been derived are still questionable because only one person in the organization has been trained to use the

system and there are no checks and balances in place yet validate the numbers.

The final constraint is the lack of published information on financial return on marketing investment in the Credit Union industry as well as the entire financial industry. Because return on marketing investment must truly be built for each individual organization, the availability of secondary information is almost non-existent. This leaves the challenge of piecing together a small amount of existing information and creating a compilation of needs and wishes of key people in the organization to get an effective end result. With these constraints in mind, I concluded that to build an all-inclusive model would require analysis of previous models and interviews with key individuals within ACU as well as individuals in the credit union industry. This process allowed me to bring in as many resources as possible and to get a model that would be accepted and used by not only the ACU Marketing staff but ACU staff Credit Union wide.

CHAPTER TWO

ROLE IN MARKETING

Marketing Department in a Financial Institution

The role of a marketing department at a credit union or any financial institution is broad. The marketing department by nature has their hands in just about every aspect of an organization. However, there are key functions that set an exceptional Marketing Department apart from an ordinary Marketing Department. These are:

- Tactical planning and implementation
- Support for branch goals and strategies
- Support for Asset/Liability and Pricing committees

Why is it important for marketers as well as branch managers, and lending managers to understand and compute Net-Present Value Return on Marketing Investment? Because information is the key to making decisions and the model gives them the power to make sound decisions, recommendations, and income-based contributions.

Individuals using a solid Net-Present-Value Return on Marketing Investment can:

- Identify and capitalize on new markets,
- Contribute to pricing and strategic decisions,

- Participate in the budgeting process,
- Operate as profit centers—not cost centers and
- Research and develop new products.

Power of the Net-Present-Value Return

It is better to know and understand results (even if they are sub-standard), than to have someone else interpret them for you. Return on marketing calculations can put finance departments and marketing departments on the "same side" of the team.

Rick Wemmers, a 26-year banking marketing veteran who started his own consulting group, urges that:

> The advertising tracking procedure must include factors other than the details of the Credit Unions marketing budget. It needs to include important and relevant factors such as competitive advertising accountability and significant events occurring within the market place and the credit union, as well as feedback from within the organization. (Gow 13)

Compilations

After pooling the numbers and formulas, there was careful consideration to the presentation and inclusion of pre-and post information.

By gathering comments and opinions internally in the organization and within the Credit Union industry, I was

able to gain a better perspective of the necessary elements for the model.

Brad Smith, Vice President of Operations at Marine Corp West Credit Union in San Diego, CA, stated, "Return on Marketing Investment numbers must go deeper than initial costs and returns. I need to see the long term effects to make an accurate decision."

Greg Krause, Vice President of Finance at Orange County Credit Union in Orange County CA, commented, "Marketing executives want to give everything away. You want to have fantastic rates, but don't understand the financial impacts."

Linda Kay Hanley, Vice President, Branch Manager at Arrowhead Credit Union remarked, "I don't have time to do a financial analysis and create a spreadsheet for every decision. If I spend my time doing that, I'll have missed the opportunity by the time I'm done!"

Lisa Reynolds, Marketing Manager of Los Angeles Police Federal Credit Union in Van Nuys California, stated, "I do a simple analysis now. I need help getting something more sophisticated created."

All of the comments stated show the range of different perspectives and levels of frustration. In

addition, the comments illustrate the lack of direction some of the individuals are experiencing.

While incorporating these comments along with research on the subject, it was clear the model must be easy to use, flexible, and have the ability to look to the short-term as well as the long-term financial impacts of a marketing investment.

Marketing Without a Return

Activity does not equal results. Just because one works hard, doesn't mean he/she is producing for the organization. Unless one is getting measurable results, one cannot prove their work.

Decisions based on intuition carry little weight. No homework has been done.

Marketers who don't realize or understand mistakes may be destined to repeat them.

Senior Management usually cut "discretionary" budgets first. Without showing the results of ones efforts, one's marketing may seem discretionary.

The next chapter will evaluate past practices and review what was learned from them.

CHAPTER THREE

MODELS

Analysis of Previous Models

The following models have been used in the past by Arrowhead Credit Union. These samples display important key elements, such as interest income and cost of funds. However, these models are very simplistic in their analysis.

Table 1.

Sample One Return on Marketing Investment Model

Annualized Income:		
	Amount Outstanding	$325,868
	Interest Rate	14.99%
	Interest Income	48,848
	Fees	$0
	Total Income	48,848
Annualized Costs		
	Dollars Generated	$325,868
	Cost of Funds	3.02%
	Interest Expense	$9,841
	Net Operating Income (loss)	$39,007
Promotional Costs		
	Marketing Expense	$10,733
	Net Income	$28,274
Return on Investment		263.43%

Source: Arrowhead Credit Union internal documents, n.d.

Table 2.

Sample Two Return on Marketing Investment Model

Sample 2 Return On Marketing Investment Model			
Campaign	This worksheet only factors in		
AA. Campaign goals:	# 100	amount	$ 1,500
BB. Actual results:	20	amount	$ 1,120,000
CC. results as a percentage decrease over goals 100 # of	-20%	amount	$ 25.30
Promotional			
DA Production of marketing			$ 4,800
EA Placement costs (postage,			$ 3,900
FA Incentives/Pr			$ -
GA Miscellaneous			$ -
HA Total Promotional (sum of DD through			$ 8,700
Return On			
II. Weighted average loan rate (during			$7.82
JJ. Less alternative investment rate			$5.30
KK. Less loan loss rate (expected			$1.00
LL. Effective yield			$1.52
MM. Net loan amount generated			1,120,000
NN. Total promotional income			17,024
OO. Less promotional investment			8,700
PP. Net First-Year Return On Investment (NN-OO)			8,324

Source: Arrowhead Credit Union internal documents, n.d.

The biggest deficiencies of both sample models are the lack of the overall product costs. The Return on Investment is not truly accurate unless all expenses incurred are included in the analysis. These models overlook the salary expenses of the employees, overhead,

and the amortization of the loan over time. The models also do not give a final break down on the break-even point of the promotion. Both were extremely helpful in building a basis for the new all-inclusive Net-Present Value-Return on Marketing Investment Model. Later more details will be presented about the systems that comprise the proposed Net-Present-Value Return on Marketing Investment Model.

Net-Present-Value Return on Marketing

This model incorporates the foundation of the previous models as well as vital new information to make the analysis complete. The model relies heavily on the accuracy of information that is plugged into it. The Member Customer Information Files (MCIF) and the Pricing Performance Survey (PPS) are programs used independently within the credit union. Incorporating the information from these programs gives a wider and more precise analysis. In addition to these programs, it was essential to incorporate standard components such as an amortization table, and Net-Present-Value formulations to give a full picture of a loan.

Member Customer Information Files

The Member Customer Information Files (MCIF) system is basically a database that receives downloads monthly from the Credit Union's mainframe. The MCIF then sorts the data quickly with the ability to generate reports and export data in minutes. It is particularly helpful in summarizing results of a promotion. Products can be sorted on the MCIF system by date, rate, balance, product, and term.

System Work

Research Files are a group of accounts, individuals or households representing a subset of the entire member base. These groups are created by the research functions and act as input to the production, research, measurement and reporting functions. The research functions allow the user to select members based on their accounts and product relationship with ACU. Once the members are selected, the list of members with the stated features can be saved in a research file.

Price Performance Survey

The Price Performance Survey (PPS) system allows the Accounting Department the ability to assign costs, such as salaries, rent, and the processing of accounts and

payments into the total on-going cost of maintaining a loan at Arrowhead Credit Union.

The PPS software specifically:

- Calculates the standard (base period) and/or actual unit cost of each product, activity, and function of ACU,
- Identifies cost reduction opportunities,
- Analyzes volume and spending variances to monitor changes, and
- Generates unit cost reports and products and product lines.

The PPS system is based on the simple concept that:

- Product Cost/Product Volume = Product Unit Cost.
- Product Cost is all expenses incurred to deliver a product or a service to the member.
- Product Volume is a count of how many units, i.e., transactions, accounts, loans, etc., a product or service has at the organization.

Ultimately the overall goal of the PPS system is to:

- Improve Profits,
- Control Expenses, and
- Identify Profitable and Unprofitable Areas of Business.

Along with the PPS and MCIF systems, standard components, such as an amortization table and up front costs, are an essential part of the model. The following paragraphs describe the amortization table and the Net-Present-Value calculations.

Amortization Schedule

This illustrates how a term loan will be paid off by specifying both the principle and interest payments made per payment.

Present and Net-Present-Value

The Present Value (PV) of a series of payments is just the sum of the present values of the individual payments. For example, the PV of a sequence of payments of B1 dollars in year 1, B2 dollars in year 2, zero dollars in year 3 and B4 dollars in year 4 would be (Asquith):

$$PV = (B1/(1+R)) + (B2/((1+R)^2)) + (B4/((1+R)^4))$$

The present value of the future cash flow, discounts at the opportunity cost of capital, or required rate of return, minus the initial investment. If the stream of payments involves costs as well as benefits, then, the present value is the sum of the present values of the individual payments treating the costs as negative

payments. This is called "net-present-value." To compute the present value of the benefits minus the present value of the costs you would use the formula below (Asquith):

$$NPV = PV(B) - PV(C)$$

The next page shows the actual Net-Present-Value Return on Investment model, followed by a line by line description of the entries into the model.

Table 3.

Net-Present-Value Return on Marketing Investment Model

Assumptions for Loan NPV Analysis	
Project Description:	Lettercheck promotion

Box 1 Initial Loan Information

Original Loan Balance	$58,000
# of Households in Target	800
Average Loan Amount	$1,000
Number of Months	24
Percent Response Rate	7.20%
# of Households Responded	58

Box 2

Projected Portfolio Yield

	Yield	% of Total $	Weighted Yield
Tier 1	9.28%	100.00%	9.28%
Tier 2			0.00%
Tier 3		0.00%	0.00%
Total Weighted Yield	N/A	100.00%	9.28%

Box 3

Charge-Off (C/O) Assumptions

Annual C/O % of Loan $ Outstdg	0.20%	Factor/Mo	0.01667%
Apply C/O Factor Beginning Mo #	28		

Box 4

Initial Non-Recurring Operating Cashflows

Marketing	Total Cost
Design/Printing of Project	800
Laser Printing	0
Experian	0
Prescreen	
Postage	0
Total Marketing Outflows	800

Box 5

Other	Unit $	Total $
Opening and Booking	0.00	0
Loan Doc Fee Inc per Loan	0.00	0
Total Other Initial Outflows (Inflows)		0

Box 6

On-Going Monthly Operating Cashflows

Activity Description	Unit Cost
Processing Payments	1.50
Closing Accounts	0.00

Box 8

Net Present Value Recap

1050.29

Box 7

Present Value Discount Rate

Loan to Share Ratio	85.00 %	% of Total	Weighted Yield	
Yield on Marginal Loan $ (total portfolio)	9.00%			
Marginal Loan C/O Percent	1.00%			
Net Yield on Marginal Loan $	8.00%	85.00 %	6.800%	
Yield on Marginal Investment $	6.00%	15.00 %	0.900%	
Discount Rate			7.70%	

Net Present Value Per $ Spent

End of Period (# of months)	NPV Per Dollar Spent
24	1.8405

Explanation of Model

Many times a program or model is created, but the only one in the organization who knows how to work it is the person who created it. This leaves the program or model useless if the individual leaves the organization, and underutilized. To make the model easier to use and to document the steps involved, the following explanation is presented:

Model Definitions and Information Sources

Box 1: Initial Loan Information

- Original Loan Balance-Number of dollars brought in by the promotion or projected to be brought in.
- # Of Households in Target-Number of households solicited to for the promotion.
- Average Loan Amount-Original loan balance divided by number of households responded.
- Number of Months-Number of months projected that the loan will be on the books before it is paid off by the members, "the loan churn" (i.e., how many months/years it takes the member to payoff the loan) (Appendix A).
- Percent Response Rate-Number of households in target divided by number of households

responded or the projected percentage response rate.

- # of Households Responded-How many actually accepted the offer or the projected number to actually take the offer.

Box 2: Projected Portfolio Yield

- Yield-The interest rate on the loan.
- % of Total $-How many loans are at this rate.
- Weighted Yield-If the loan offers more than one rate (i.e., introductory rate or different rates for different credit scores), this field calculates an average rate for the entire loan promotion.
- Total Weighted Yield-Adds tiered yields together.

Box 3: Charge-Off (C/O) Assumptions

- Annual C/O % of Loan $ Outstdg-This is an average percentage that can be obtained from the Accounting Department. (Whenever possible a manager should use loan loss percentage from the actual group of loans in each promotion. Each loan has different figures, e.g., Real Estate loans vs. Auto loans.)

- Apply C/O Factor Beginning Mo #-All loans have historical information that allows one to determine approximately when during the life of the loan that individual might default. These can change over time. Check with the Lending Department yearly to review time frames.

Box 4: Initial Non-Recurring Operating Cashflows

- Marketing-All expenses incurred to launch the promotion initially, such as printing costs, design and postage.

Box 5: Initial Non-Recurring operation Cashflows

- Other-This is the cost that ACU incurs when processing the loan for the first time. Figures for each loan product can be obtained from the PPS System.

Box 6: On-Going Monthly Operating Cashflows

- Processing Payments-How much does it cost ACU to process monthly loan payments made by members on their existing loans (Appendix B).
- Closing Accounts-When a loan is closed, there are costs involved. For example, auto loans must have the title and Department of Motor Vehicles paperwork transferred. This requires

staff to spend time processing the loan payoffs.

Box 7: Present Value Discount Rate

- Loan to Share Ratio-A monthly ratio that divides the credit union's assets by number of loans outstanding to determine how loaned out the institution is. This ratio comes from the Capital Budget comparison generated by the Accounting Department.
- Yield on Marginal Loan $ (total portfolio)-This is the weighted-average yield on all marginal loan dollars and can be obtained from the Accounting Department.
- Marginal Loan C/O Percent-This is the annual
- charge-off Percentage of Loan. This is an average percentage that can be obtained from the accounting department.
- Net Yield on Marginal Loan $- This is the yield on Marginal Loan Dollars minus the Marginal Loan Charge-off Percent.
- Yield on Marginal Investment $- This is the Wescorp Daily rate times the Net on marginal loans to get the Weighted Yield. This can be

obtained from the daily cash position sheet from the Accounting Department.

- Discount Rate-This is the final number obtained by adding the Net Yield on Marginal Loan dollars and the Yield on Marginal Investment. This number is ultimately ACU's cost of funds.

Box 8: Net-Present-Value Recap

- Net-Present-Value Recap-This is the number of months (i.e., loan churn) minus the present value times the discount rate divided by 12 (months) and then the present value and the loan costs (Appendix C).
- NPV (Net-Present-Value) Per $ Spent-The model computes the Return on Marketing Investment per dollar spent by taking the Net-Present-Value and dividing it by the Marketing expenses and operating expenses.
- The Net-Present-Value represents the profit on each dollar spent after all costs.

This chapter traced the components that were incorporated to bring the Net-Present-Value Return on Marketing Investment Model together, as well as

breaking-down and describing each line item in the Net-Present-Value Return on Marketing Investment Model.

The next chapter will cover the benefits of measuring Return on Marketing Investment as well as introduce the Promotional Autopsy Report, which is an additional tool to accompany the Net-Present-Value Return on Marketing Investment Model.

CHAPTER FOUR

RESULTS

The Measurement Process

Almost as long as advertising has been around, there have always been questions of just how effective are advertising and marketing efforts. Often when ACU or other financial institutions are experiencing growth and successful promotions, it can be said that the organization is doing well, everyone is working together to make all efforts successful.

In my past experience I've know the following questions to arise when it comes to marketing efforts:

1. Could the same results have been achieved with half the money?
2. Would the results achieved have been double if twice the amount of money was spent?
3. Would we have received the same results if no money was spent?
4. Can advertising make people buy?
5. Is the decision to do the promotion based on facts or emotion?

Measurement Makes a Difference

Net-Present-Value Return on Marketing Investment as a measurement can have dramatic impact on the following:

- Changing "management by intuition" into " management by fact" by putting numbers and results to each project rather than one's "gut" feeling.
- Forcing marketing professionals to see the "big picture" and their roles within it, Directly tracking the Marketing Department's efforts to the bottom line, and
- Putting marketing and finance professionals on the same team.

Often finance professionals interpret marketers as individuals who do not know the numbers, people who simply want good rates to sell products without fully analyzing the consequences. This model attempts to bridge the gap between marketers and finance professionals.

Post-Audit Operating Performance

I found that for a marketing program to be successful, I must get post-promotion feedback not only within the Marketing Department and Senior Management, but from the people whom I must rely on to make the promotions

successful on a regular basis. This would include branch staff, lending staff and various people in the accounting, training and support departments.

No decision process is complete until it is reviewed and its lessons are learned. This can be accomplished by post-auditing how the project fared. A post-audit is intended to foster unbiased forecasting by making the Marketing Department and management aware that their efforts will be reviewed. This will also allow the Marketing Department to learn from, and improve upon earlier efforts and decrease the emotional and political obstacles associated with ad-hoc correction of performance of poorly performing projects or a project perceived as poorly performing.

Intangibles

While it is vital to have a clear financial picture of the return on marketing investments, one certainly cannot ignore other factors that should be taken into consideration. These would consist of building goodwill in the community and offering a product that has the potential to lead to other more profitable products.

Gallinger, Gordon and Pinches a research firm that surveyed 134 corporations, suggests that a sophisticated capital investment model should include the following:

- Strategic Analysis
- Establishing Investment Goals
- Forecasting investment cash flows
- Risk-adjusted evaluation of forecasted cash flows
- Decision Making and
- Post-audit operating performance (Green).

The above points were incorporated into the Net-Present-Value Return on Investment model and prompted the need for a Promotional Autopsy Report created by the Marketing Department (Table 4).

Table 4.

Promotional Autopsy Report

Types of Marketing Material		
Objective: To increase loans		
Types of Marketing Materials and Communications:		
☐ 18X24 Posters	☐ Up-to-Date	☐ Web Site Story
☐ Statement Insert/Teller Handouts	☐ Direct Mail	☐ On-Hold Message
☐ Branch Displays	☐ Tent Cards	☐ PB Message
☐ FYI	☐ Video Posters	☐ Receipt Message
	☐ Prescreen	☐ Reminder Postcard

Type of Offer:☐
☐ Offer To Apply
☐ Pre-Approval
☐ Auto Sale

Criteria for promotion:
All Home Equity and No Equity loans with at least $500 available credit and loan not older than 6 years.

What worked	What could be improved?
☐ Members understood promotion	Please be specific:
☐ Staff understood promotion	
☐ Information given to staff ahead of time	
☐ Promotion easy to talk about to members	

Return On Marketing Investment	
No. of Households Targeted:	800
Response Rate:	7.20%
Number of Responses:	24
Average Balance:	$1,000
Return on Marketing Investment:	$1.84

Intangible Benefits
Simply by receiving the checks the member is reminded that they have an available line-of-credit on their equity loan.

Source: Arrowhead Credit Union internal documents, n.d.

Promotion Title: Letter check Promotion

Start Date: 10/99 End Date: 12/99

Objective: To decrease contingent liability and increase loan dollars

The next chapter will include interviews from credit union employees who have used the model as well as summarize the ease and effectiveness of the model.

CHAPTER FIVE

CONCLUSIONS AND FEEDBACK

Conclusion

To summarize the previous four chapters the creation of this model brings together key information in the organization to get a clearer picture on a marketing investment before and after it is launched. The model also brings various departments together in their understanding and agreement of dollars spent on marketing promotions. It is commonplace within Arrowhead Credit Union and other organizations for individuals or entire departments not to buy into a project because they did not agree with the analysis, therefore, discounting the project's worthiness. This model obtained information and feedback from various people within the organization as well as individuals in the credit union industry in its creation to avoid this pitfall.

The model is easy to use. There are relatively few fields to input. The formulas and schedules can be simply viewed if desired, but were placed on adjoining pages to keep the model simple looking and quick to use. If one breaks the model down, it is truly a system of interrelated models. Each can be shown individually to

illustrate the steps involved. However if one wants the bottom line, that's what one gets on the first page.

The model also offers built-in flexibility with the option of using multiple rates, on-going cash flows and the capability of entering in the number of months that particular loan would take to pay-off. This is valuable in the assessment of interest income and loan costs on each individual analysis of Return on Marketing Investment.

User Feedback

Jeanne Terwilliger, Marketing Specialist at Arrowhead Credit Union stated, "Being new to the Credit Union industry, I found the Return on Marketing Investment Model's output easy to understand. I only use the final output page with the Net-Present-Value Per Dollar Spent. Having this information when speaking with others in the Credit Union organization gave me confidence and the ability to communicate more effectively."

Traci Vance, Lending Manager at Arrowhead Credit Union said "I feel powerful having so much information on one page. I also like the fact that the Return on Marketing Investment model looks at the entire picture. It brings in all expenses incurred, and incorporates the

amortization of the loan. This gives me a more accurate picture."

If one assigns no financial value to a real impact project, it contributes nothing to the financial analysis, long term planning, or the credibility for future projects within the organization. The Net-Present- Value Return on Marketing Investment Model gives the power of knowledge, synergy of departments, and a projection into the future.

In summary, this project discussed the importance of having an objective model to make decisions. A model that not only looks at the initial costs but also includes long-term costs in the analysis, giving a more accurate analysis.

Benefits of this model were also covered along with testimonials of its usefulness.

This project is useful to ACU because it allows ACU staff to incorporate all loan expenses, loan amortization and tiered rates on one page to give a complete overview of individual loan promotions.

I found this exercise invaluable because it clarified what numbers should be included in the analysis of a loan promotion, and was a catalyst to digging far deeper than I ever would have to get to the numbers behind a promotion. In addition the model truly puts staff on the same level

when analyzing loan promotion effectiveness. Thus, it is my intention that ACU as well as others will benefit from reading this project and using this model.

APPENDIX A

LOAN AMORTIZATION SCHEDULE

Loan Amortization Schedule

Loan Amortization For Net Present Value-Return On Investment						
			Payment			Adjusted
Month	Loan Balance	Payment	Principal	Interest	Charge-Offs	Loan Balance
	58,000.00					57,113.00
0	57,113.00	(2,657.17)	2,215.50	441.67	0.00	54,810.50
1	54,897.50	(2,657.17)	2,232.63	424.54	0.00	52,577.87
2	52,664.87	(2,657.17)	2,249.90	407.27	0.00	50,327.97
3	50,414.97	(2,657.17)	2,267.30	389.88	0.00	48,060.68
4	48,147.68	(2,657.17)	2,284.83	372.34	0.00	45,775.84
5	45,862.84	(2,657.17)	2,302.50	354.67	0.00	43,473.35
6	43,560.35	(2,657.17)	2,320.31	336.87	0.00	41,153.04
7	41,240.04	(2,657.17)	2,338.25	318.92	0.00	38,814.79
8	38,901.79	(2,657.17)	2,356.33	300.84	0.00	36,458.46
9	36,545.46	(2,657.17)	2,374.55	282.62	0.00	34,083.90
10	34,170.90	(2,657.17)	2,392.92	264.25	0.00	31,690.99
11	31,777.99	(2,657.17)	2,411.42	245.75	0.00	29,279.56
12	29,366.56	(2,657.17)	2,430.07	227.10	0.00	26,849.49
13	26,936.49	(2,657.17)	2,448.86	208.31	0.00	24,400.63
14	24,487.63	(2,657.17)	2,467.80	189.37	0.00	21,932.83
15	22,019.83	(2,657.17)	2,486.89	170.29	0.00	19,445.94
16	19,532.94	(2,657.17)	2,506.12	151.05	0.00	16,939.82
17	17,026.82	(2,657.17)	2,525.50	131.67	0.00	14,414.33
18	14,501.33	(2,657.17)	2,545.03	112.14	0.00	11,869.30
19	11,956.30	(2,657.17)	2,564.71	92.46	0.00	9,304.59
20	9,391.59	(2,657.17)	2,584.54	72.63	0.00	6,720.04
21	6,807.04	(2,657.17)	2,604.53	52.64	0.00	4,115.51
22	4,202.51	(2,657.17)	2,624.67	32.50	0.00	1,490.84
23	1,577.84	(2,657.17)	2,644.97	12.20	0.00	(1,154.13)
24	(1,067.13)	(2,657.17)	2,665.42	(8.25)	0.00	(3,819.56)
25	(3,732.56)	(2,657.17)	2,686.04	(28.87)	0.00	(6,505.60)
26	(6,418.60)	(2,657.17)	2,706.81	(49.64)	0.00	(9,212.41)
27	(9,125.41)	(2,657.17)	2,727.74	(70.57)	0.00	(11,940.15)
28	(11,853.15)	(2,657.17)	2,748.84	(91.66)	23.71	(14,665.28)
29	(14,601.98)	(2,657.17)	2,770.09	(112.92)	29.20	(17,429.87)
30	(17,372.08)	(2,657.17)	2,791.52	(134.34)	34.74	(20,215.85)
31	(20,163.60)	(2,657.17)	2,813.10	(155.93)	40.33	(23,023.37)
32	(22,976.70)	(2,657.17)	2,834.86	(177.69)	45.95	(25,852.61)
33	(25,811.56)	(2,657.17)	2,856.78	(199.61)	51.62	(28,703.72)
34	(28,668.34)	(2,657.17)	2,878.87	(221.70)	57.34	(31,576.88)
35	(31,547.21)	(2,657.17)	2,901.14	(243.97)	63.09	(34,472.26)
36	(34,448.35)	(2,657.17)	2,923.57	(266.40)	68.90	(37,390.03)

APPENDIX B

ONGOING COSTS FOR LOAN

Ongoing Costs for Loan

Loan Amortization Schedule

Loan Costs for Net Present Value – Return On Investment

Loan Boarding Fees	Monthly Processing Costs	Closing Accounts	Total Costs	Net Cash Flows
0	87	0	887	1,770
	87		87	2,570
	87		87	2,570
	87		87	2,570

APPENDIX C

NET-PRESENT-VALUE RETURN ON MARKETING

Net-Present-Value Return on Marketing

Month	Value	Net Present Value
0	1,770.17	58.883.17
1	2,553.79	57,364.29
2	2,537.50	55,115.37
3	2,521.32	52,849.30
4	2,505.25	50,565.92
5	2,489.28	48,265.12
6	2,473.41	45,946.75
7	2,457.64	43,610.68
8	2,441.97	41,256.76
9	2,426.40	38,884.86
10	2,410.93	36,494.83
11	2,395.56	34,086.54
12	2,380.28	31,659.85
13	2,365.11	29,214.60
14	2,350.03	26,750.66
15	2,335.04	24,267.87
16	2,320.16	21,766.10
17	2,305.36	19,245.19
18	2,290.66	16,704.99
19	2,276.06	14,145.36
20	2,261.55	11,566.13
21	2,247.13	8,967.17
22	2,232.80	6,348.31
23	2,218.57	3,719.40
24	2,204.42	1,050.29
25	0.00	0.00
26	0.00	0.00
27	0.00	0.00
28	0.00	0.00
29	0.00	0.00
30	0.00	0.00

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